

Regional Area Road Fund Maricopa Transportation Excise Tax

**Fiscal Year 2005
Year-End Report**



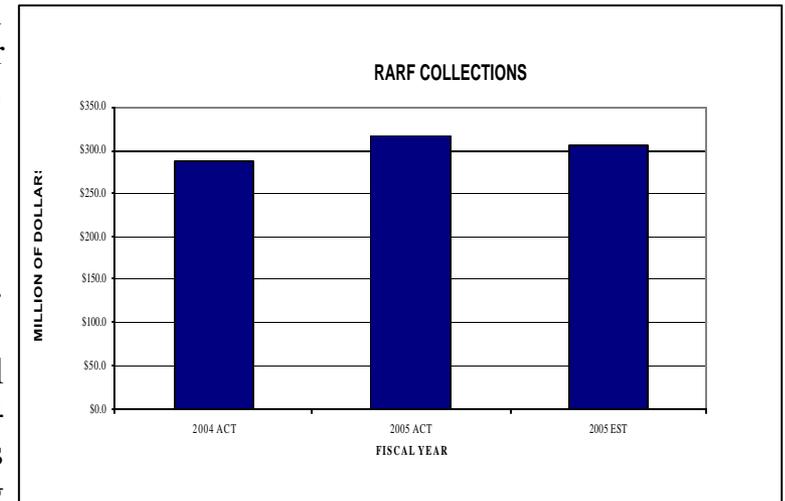
**Arizona Department of Transportation
Financial Management Services
Office of Financial Planning
August 2005**

REGIONAL AREA ROAD FUND MARICOPA TRANSPORTATION EXCISE TAX EXECUTIVE SUMMARY

The Maricopa County Transportation Excise Tax, often referred to as the "1/2 cent sales tax" is levied upon business activities in Maricopa County, including retail sales, contracting, utilities, rental of real and personal property, restaurant and bar receipts, and other activities. The transportation excise tax revenues are deposited in the Maricopa County Regional Area Road Fund (RARF) which is administered by the Arizona Department of Transportation. The revenues deposited into the RARF account are the principal source of funding for the Regional Freeway System in Maricopa County and are dedicated by statute to the purchase of right-of-way, design and construction of controlled access highways through December 31, 2005. In November 2004, Maricopa County's voters approved Proposition 400, which extends the one-half sales tax for another 20 years through December 31, 2025. The sales tax extension will be used for construction of new freeways, widening of existing freeways and highways, improvements to the arterial street system, regional bus service and high capacity transit services such as light rail.

Fiscal year (FY) 2005 Maricopa County transportation excise tax collections totaled \$316.8 million, an increase of 9.8 percent over FY 2004 and 3.2 percent above the estimate. RARF collections have posted two consecutive years of strong growth after little growth in FY 2002 and FY 2003. Except for rental of personal property, all revenue categories posted positive gains in FY 2005.

The main revenue categories that contributed to the year-over-year growth in RARF revenues were contracting at 20.2 percent, restaurant and bar at 9.6 percent, retail sales at 9.2 percent, rental of real property at 7.9 percent, other revenue category at 4.4 percent and utilities at 4.2 percent. The growth in RARF revenues was attributed to growth in employment and population along with low interest rates.



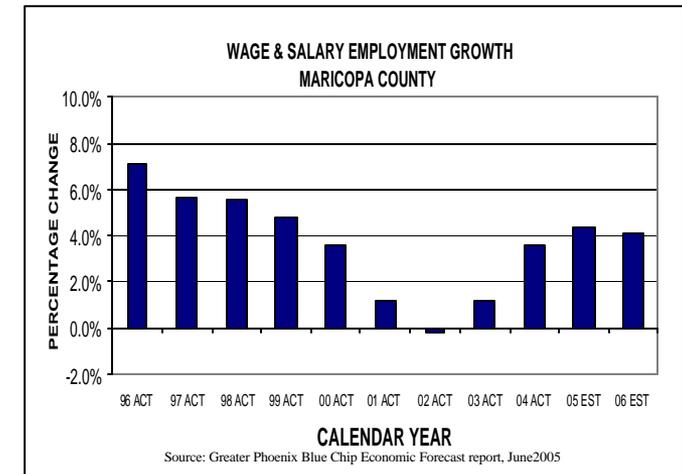
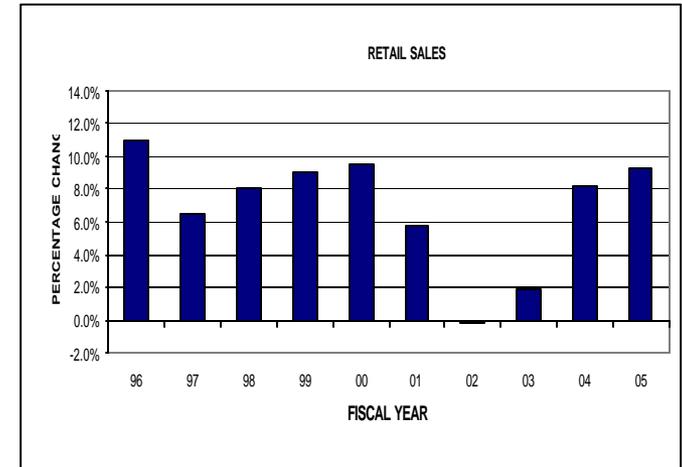
PERFORMANCE BY CATEGORY

RETAIL SALES:

Retail sales collections for FY 2005 totaled \$158.2 million, an increase of 9.2 percent over FY 2004 and 1.8 percent above the forecast. As noted in the chart on the right, retail sales have continued to improve from the negative growth experienced in FY 2002. An improved economy with growth in employment and population provided for the strength in retail sales during FY 2005.

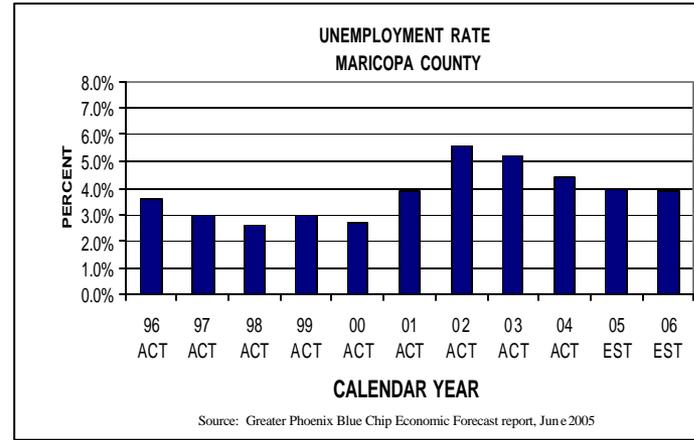
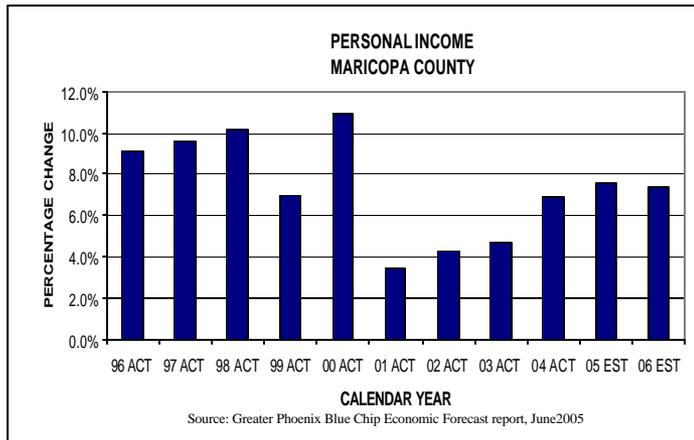
Maricopa County retail sales benefited from the growth in wage and salary employment, personal income and population along with the “wealth effect” created by the high appreciation in home prices. Retail sales growth is expected to continue into FY 2006 for the same reasons. According to the Greater Phoenix Blue Chip report, June 2005 issue, the wage and salary employment growth for calendar year (CY) 2004 was 3.6 percent, up from 1.2 percent in CY 2003. It is estimated that wage and salary employment will grow by 4.4 and 4.1 percent in CY 2005 and 2006, respectively. Employment growth was centered in the construction and tourism industries. The manufacturing sector continued to decline.

Maricopa County population grew from 2.9 percent in CY 2003 to 3.3 percent in CY 2004. The Greater Phoenix Blue Chip estimates the population will grow by 3.1 and 3.0 percent in CY 2005 and CY 2006, respectively.



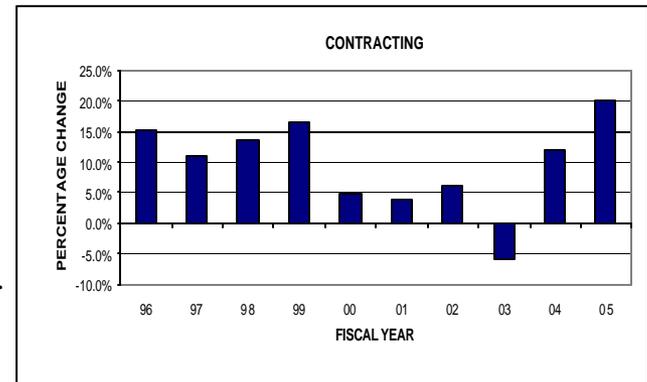
RETAIL SALES: Continued

Population and employment growth have led to higher personal income in Maricopa County. As mentioned in the Greater Phoenix Blue Chip, personal income increased by 6.9 percent in CY 2004 compared to 4.7 percent in CY 2003. Personal income growth in Maricopa County is projected to be 7.6 and 7.4 percent in CY 2005 and 2006, respectively. The unemployment rate has decreased to 4.4 percent in CY 2004 from 5.2 percent in CY 2003 and is estimated to decrease to 4.0 percent in CY 2005 and 3.9 percent in CY 2006.



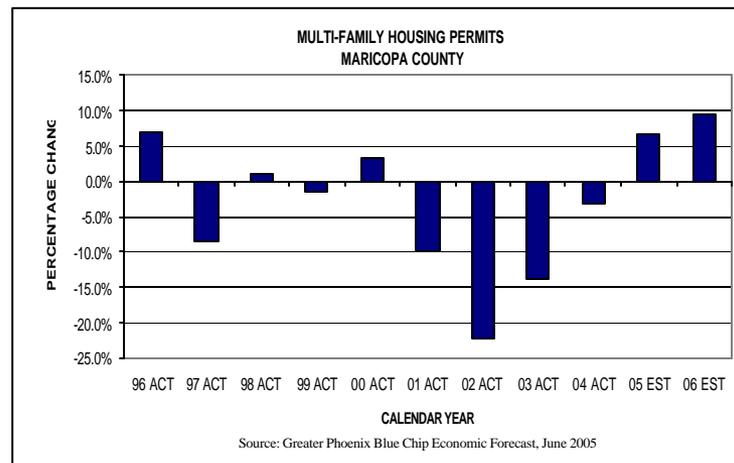
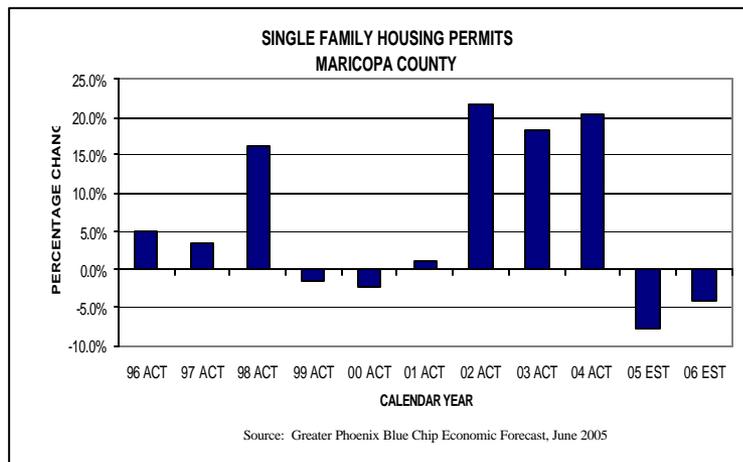
CONTRACTING:

FY 2005 contracting revenues totaled \$52.3 million, an increase of 20.2 percent over FY 2004 and 12.3 percent above the forecast. For the second consecutive year, contracting revenue has posted strong year-over-year growth. Population growth, along with low interest rates, have fueled the increase in new home permits. In CY 2004, single family housing permits reached another record according to the Greater Phoenix Blue Chip report, June 2005 issue. In CY 2004, vacancy rates for apartments, commercial offices and industrial buildings sectors continued to decline.



CONTRACTING: Continued

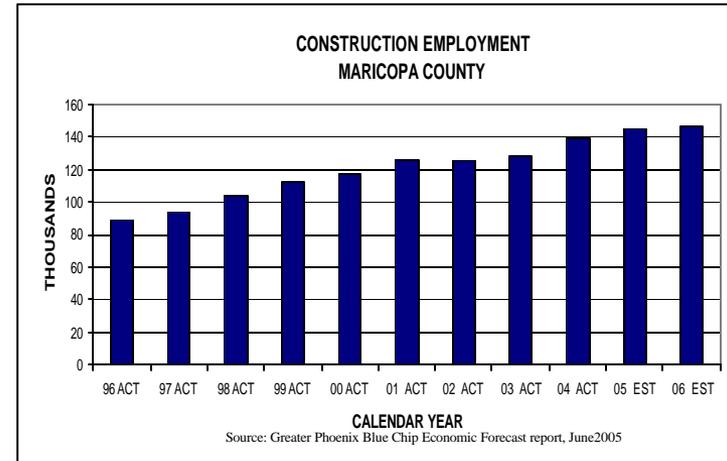
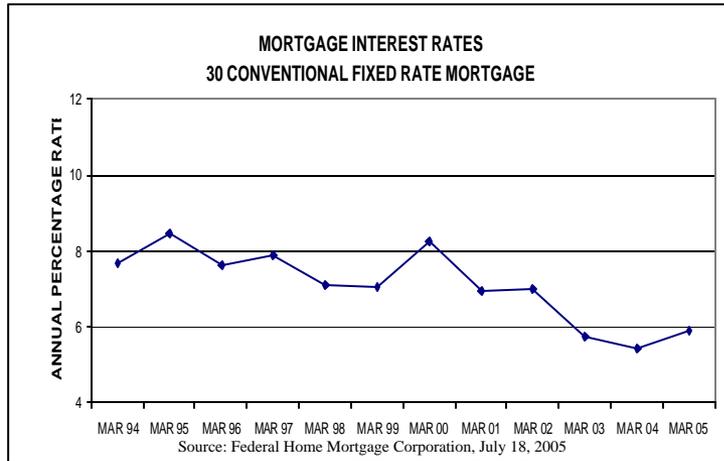
The Greater Phoenix Blue Chip reported that Maricopa County single-family housing permits increased by 20.3 percent in CY 2004 and 18.2 percent in CY 2003. However, the Blue Chip experts estimate that single family housing permits will decline by 7.8 percent in CY 2005 and 4.1 percent in CY 2006, which may be too conservative based on the first six months of CY 2005 data. Even then, CY 2005 is expected to be the second best year for single housing permits. Multi-family housing permits declined 13.8 and 3.2 percent in CY 2003 and CY 2004, respectively. The Blue Chip panel expects multi-family permits to increase by 6.6 and 9.5 percent in CY 2005 and CY 2006, respectively. The apartment building vacancy rate declined to 7.9 percent in CY 2004 but is expected to increase to 8.5 percent in CY 2005.



In FY 2005, the contracting sector benefited from low mortgage rates. Although the conventional 30 year fixed rate mortgage increased from 5.5 percent in March 2004 to 5.9 percent in March 2005, the mortgage interest rate is still historically low. Investors, first time homebuyers and move-up homebuyers took advantage of the low interest rate environment to send residential housing to another record in CY 2004. Since June 2004, the Federal Reserve has raised the federal fund rate ten times. Short-term interest rates have climbed from record low levels but long term rates have held relatively level.

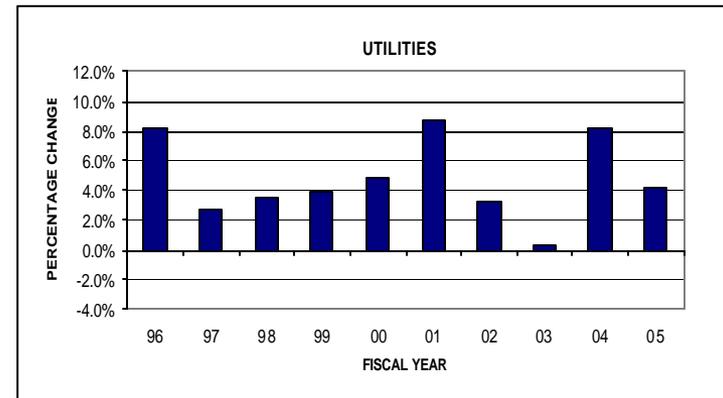
CONTRACTING: Continued

As a result of increased construction activities, the construction employment sector continues to grow. Total construction employment increased to 139,400 in CY 2004 from 128,900 in CY 2003. The Greater Phoenix Blue Chip panel members estimate construction employment will increase by 4.0 percent in CY 2005 and 1.2 percent in CY 2006. The office vacancy rate decreased to 18.2 percent in CY 2004 from 18.7 percent in CY 2003. Similarly, the retail vacancy rate decreased to 6.1 percent in CY 2004 from 7.4 percent in CY 2003. The Blue Chip panel estimates the office and retail vacancy rates to be 16.6 and 8.3 percent, respectively, in CY 2005.



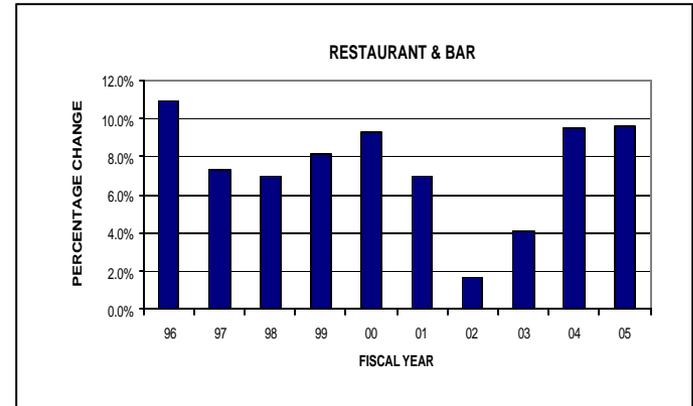
UTILITIES:

Utility tax collections in FY 2005 totaled \$20.8 million, compared to \$20.0 million in FY 2004. Utility revenues finished the year with an increase of 4.2 percent over last year but was 0.4 percent below the estimate. The modest growth in utility collections was due to a warmer winter and cooler summer in Maricopa County, and conservation efforts during the summer months due to supply problems.



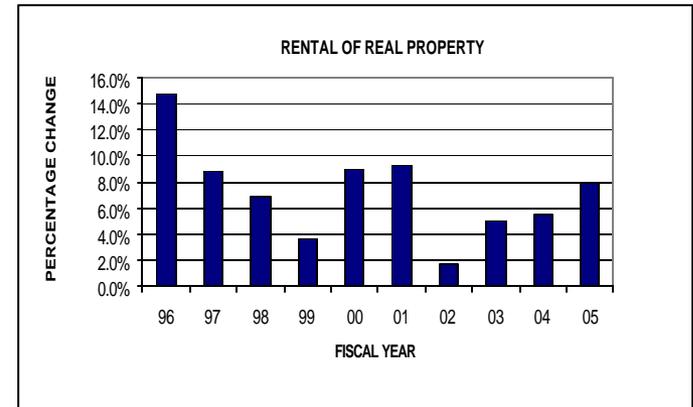
RESTAURANT AND BAR:

Restaurant and bar receipts increased to \$27.2 million in FY 2005, compared to \$24.8 million in FY 2004, an increase of 9.6 percent and 1.8 percent over the estimate. The restaurant and bar revenue category benefited from growth in population and personal income along with higher tourism and convention activities including record attendance at Cactus league baseball spring training games.



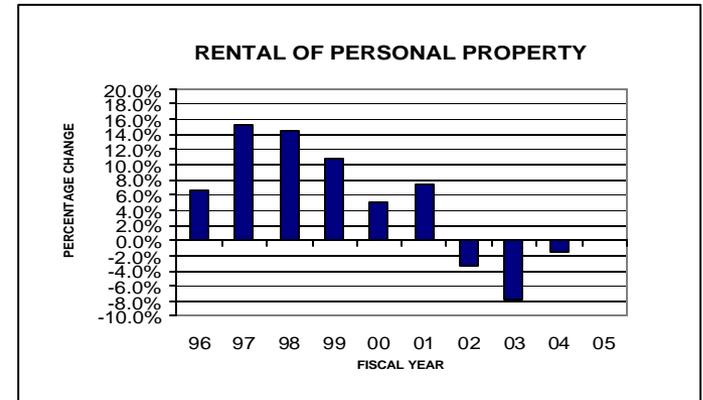
RENTAL OF REAL PROPERTY:

FY 2005 rental of real property revenues totaled \$29.3 million compared to \$27.2 million in FY 2004. This amounts to a 7.9 percent increase over the prior year's total. When compared to the forecast, rental of real property collections were 1.4 percent above the estimate in FY 2005. Rental of real property benefited from the recovery in tourism activities. Rental of commercial and transient lodging including hotel and motel facilities are included in this revenue category.



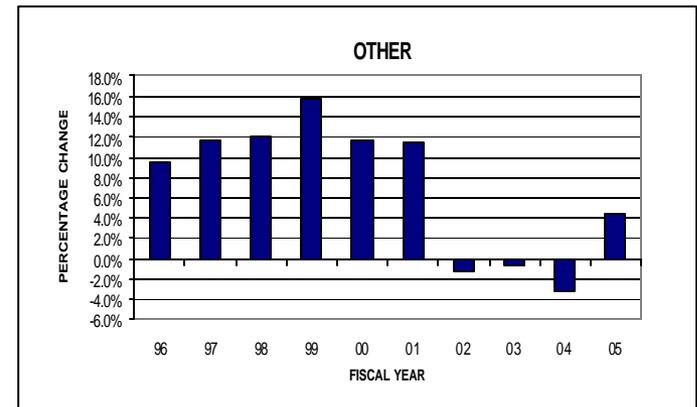
RENTAL OF PERSONAL PROPERTY:

In FY 2005, rental of personal property revenues totaled \$12.6 million, a decrease of 0.1 percent below the FY 2004 level but 0.2 percent above the estimate. Rental and leasing of vehicles, business and construction equipment along with tangible personal property are included in this revenue category. This revenue category has been hurt by the low interest rates which make it more economical for consumers and businesses to purchase vehicles or equipment rather than lease them.

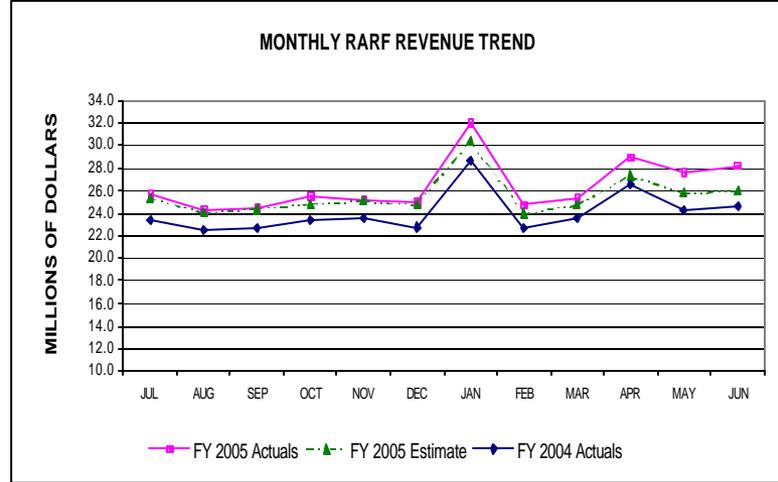
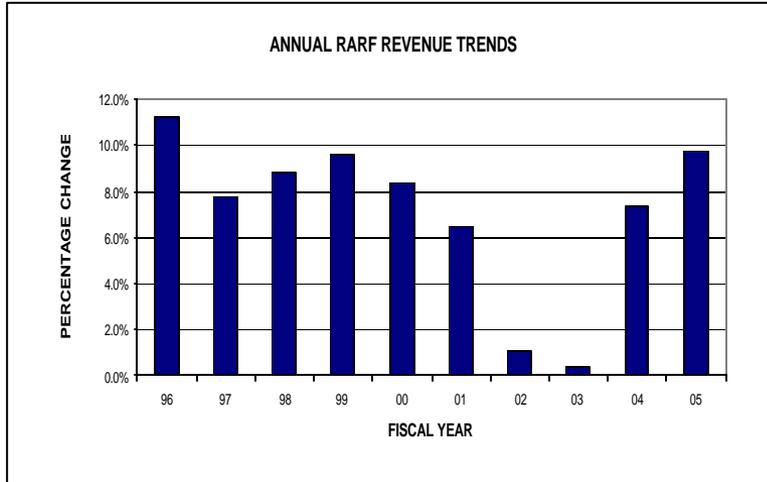


OTHER:

“Other” revenues for FY 2005 totaled \$16.4 million, an increase of 4.4 percent over FY 2004 and 3.6 percent above the forecast. The increase in “other” revenues was due to higher communications, railroad and aircraft, printing and amusement collections. The “other” revenue category includes collections from transportation and towing, communications, railroad and aircraft, private rail and pipeline, publishing, printing, amusement, jet fuel tax and miscellaneous other revenues.



REVENUE TREND ANALYSIS



FY 2005 Maricopa Transportation excise tax collections increased to \$316.8 million, compared to \$288.6 million in FY 2004. This is the second consecutive year that tax revenues have shown strong growth since the September 11, 2001 tragedy. All major RARF revenue categories showed year-over-year increases in revenues, except for rental of personal property. The stronger than expected RARF revenues were due mainly to the low interest rate environment along with growth in employment and population. FY 2005 RARF revenue growth was the strongest since 1996, and the fourth strongest growth year in the history of the tax.

On a monthly basis, RARF revenues continue to follow consistent trends with sharp increases in revenues in January due to holiday retail sales and April due to baseball spring training and winter visitors.

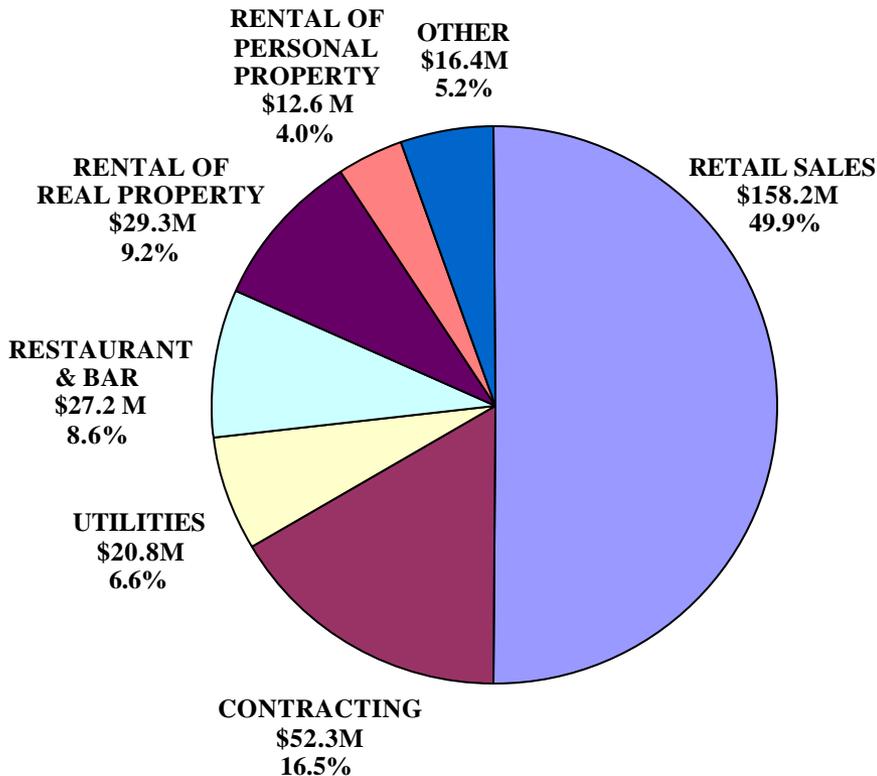
REVENUE PERFORMANCE

MARICOPA COUNTY TRANSPORTATION EXCISE TAX

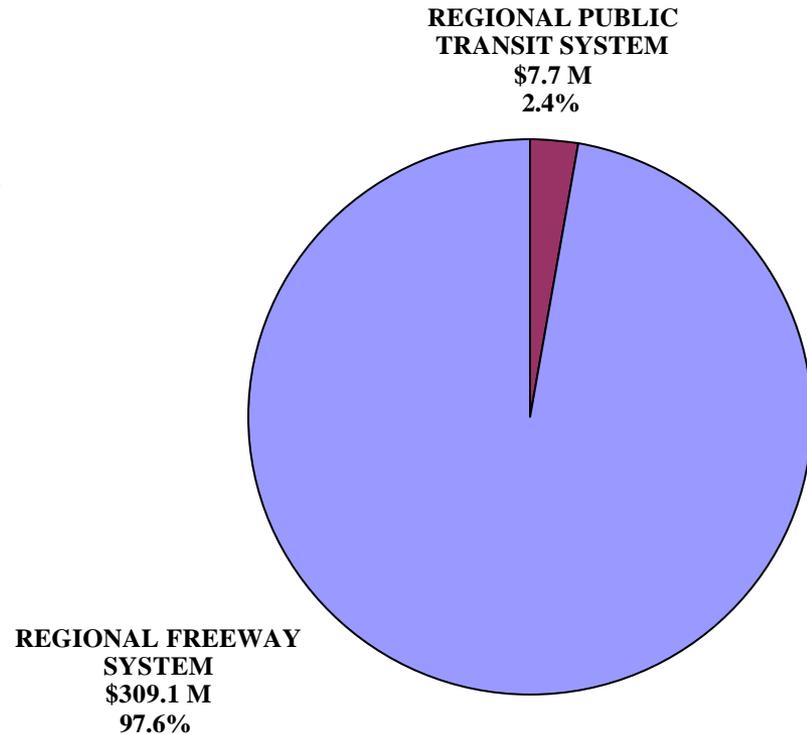
FY 2005 ACTUAL

TOTAL= \$316.8 MILLION

SOURCES



DISTRIBUTIONS



MARICOPA COUNTY REGIONAL AREA ROAD FUND

TRANSPORTATION EXCISE TAX

REVENUE COMPARISON STATEMENT

FY 2005

CATEGORY	FY 2004 ACTUAL	FY 2005 ACTUAL	CHANGE	FY 2005 ESTIMATE	CHANGE
RETAIL SALES	\$144,816,883	\$158,179,314	9.2%	\$155,400,000	1.8%
CONTRACTING	43,523,844	52,325,393	20.2%	46,600,000	12.3%
UTILITIES	19,979,852	20,813,151	4.2%	20,900,000	-0.4%
RESTAURANT & BAR	24,806,732	27,190,928	9.6%	26,700,000	1.8%
RENTAL OF REAL PROPERTY	27,163,395	29,309,616	7.9%	28,900,000	1.4%
RENTAL OF PERSONAL PROPERTY	12,630,667	12,623,626	-0.1%	12,600,000	0.2%
OTHER	15,678,427	16,363,534	4.4%	15,800,000	3.6%
TOTAL	\$288,599,800	\$316,805,562	9.8%	\$306,900,000	3.2%

NOTE: Division of collections to business categories is imputed based upon reported taxable income.
Total may not add due to rounding.

MARICOPA COUNTY REGIONAL AREA ROAD FUND TRANSPORTATION EXCISE TAX REVENUES COLLECTED BY CATEGORY FY 1986 – 2005 (Dollars in Thousands)

FISCAL YEAR	RETAIL SALES	CONTRACTING	UTILITIES	RESTAURANT & BAR	RENTAL REAL PROPERTY	RENTAL PERSONAL PROPERTY	OTHER	TOTAL	PERCENT CHANGE
1986 *	\$19,244	\$5,716	\$3,073	\$3,682	\$1,923	\$1,733	\$1,615	\$36,986	
1987	48,085	14,849	8,542	7,579	6,822	4,172	4,782	94,831	
1988	51,405	14,188	9,535	8,379	5,994	4,728	4,961	99,190	4.6%
1989	53,927	13,947	10,336	8,795	8,952	4,883	5,410	106,250	7.1%
1990	55,798	13,286	10,685	9,282	10,808	5,289	5,653	110,801	4.3%
1991	56,769	12,715	11,353	9,655	11,091	5,708	6,044	113,335	2.3%
1992	59,108	11,688	10,999	10,280	11,707	6,043	6,671	116,496	2.8%
1993	64,033	13,385	11,874	11,171	12,993	6,672	7,145	127,273	9.3%
1994	72,737	17,039	12,680	12,166	13,414	7,002	7,808	142,846	12.2%
1995	81,546	21,107	13,132	13,291	14,660	8,198	8,384	160,318	12.2%
1996	90,454	24,284	14,198	14,739	16,822	8,734	9,183	178,413	11.3%
1997	96,281	26,948	14,583	15,821	18,298	10,074	10,252	192,257	7.8%
1998	104,073	30,610	15,101	16,917	19,552	11,539	11,472	209,263	8.8%
1999	113,528	35,632	15,680	18,304	20,266	12,787	13,272	229,470	9.7%
2000	124,428	37,384	16,437	20,005	22,080	13,434	14,827	248,596	8.3%
2001	131,608	38,820	17,862	21,395	24,112	14,416	16,510	264,722	6.5%
2002	131,393	41,218	18,432	21,748	24,529	13,928	16,314	267,563	1.1%
2003	133,922	38,894	18,485	22,646	25,747	12,834	16,192	268,721	0.4%
2004	144,817	43,524	19,980	24,807	27,163	12,631	15,678	288,600	7.4%
2005	158,179	52,325	20,813	27,191	29,310	12,624	16,363	316,805	9.8%
TOTAL	\$1,791,335	\$507,559	\$273,779	\$297,854	\$326,244	\$177,429	\$198,537	\$3,572,737	

COMPOUND ANNUAL GROWTH RATE (FY 1987 - FY 2005) = 6.9%

*The tax became effective January 1, 1986

ARIZONA TRANSACTION PRIVILEGE TAX

EXCISE TAX RATES

FY 2005

Taxable Activity	Percent of Total Maricopa County Transaction Privilege Tax Collections	Transaction Privilege Tax Rate	Transportation Excise Tax Rate
Retail Sales	49.93%	5.00%	0.50%
Contracting	16.52%	5.00%	0.50%
Rental of Real Property (including hotels & motels)	9.25%	1.82%*	0.512%
Restaurants and Bars	8.58%	5.00%	0.50%
Utilities	6.57%	5.00%	0.50%
Rental of Personal Property	3.98%	5.00%	0.50%
Communication	3.20%	5.00%	0.50%
Amusements	1.05%	5.00%	0.50%
Publishing and Printing	0.61%	5.00%	0.50%
Other	0.31%	5.00%	0.50%
Mining	0.00%	3.125%	0.3125%
Wholesale Feed	0.00%	0%**	0.00%

* In 1990 and 1993, legislation reduced the transaction privilege tax rate for real property rentals; however, for transportation excise tax purposes, the rate was retained at its prior level.

** In 1994, legislation repealed the transaction privilege tax for livestock and poultry feed, salts, vitamins and other additives for livestock and poultry. The tax rate was reduced to zero on July 17, 1994 and then the tax classification was repealed on October 1, 1994.

REVENUE CATEGORY DEFINITIONS

RETAIL SALES	Includes retail sales of automobiles, durable goods and other general merchandise, apparel, building materials, furniture and other tangible personal property. The tax on food was repealed in July, 1980.
CONTRACTING	Includes prime contracting and dealership of manufactured buildings and owner-builder operations.
UTILITIES	Includes producing and/or furnishing to consumers electricity, natural or artificial gas and water.
RESTAURANT AND BAR	Includes operations of restaurants and drinking establishments.
RENTAL OF REAL PROPERTY	Includes leasing or renting real property, hotels and motels.
RENTAL OF PERSONAL PROPERTY	Includes leasing or renting tangible personal property such as leased vehicles and construction equipment.
OTHER	Includes operations of amusement places, intrastate telecommunication services, job printing, engraving, embossing and publication, publication of newspapers, magazines and other periodicals, intrastate transportation of persons, freight or property, and intrastate operation of pipelines for oil or natural or artificial gas.